



AUDITOR-GENERAL
SOUTH AFRICA

Ms Samantha Titus
Municipal Manager
Nama Khoi Local Municipality
Private Bag X17
Springbok
8240

30 November 2019

Reference: 21335REG18-19

Dear Madam

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Nama Khoi Local Municipality for the year ended 30 June 2019

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa.
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Nama Khoi Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Nama Khoi Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Nama Khoi Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

Investment property

3. The municipality did not value investment property for the current and prior year in terms of the accounting policy in accordance with GRAP 16, *Investment property*. I was unable to determine the impact investment property disclosed in note 3 for the current and prior year as it was impracticable to do so. Additionally, there was a resultant impact on the deficit for the period and on the accumulated surplus. Consequently, I was unable to determine whether any further adjustments were necessary to the investment property stated at R123 444 704 (2018: R123 444 704) in note 3 to the financial statements.

Irregular expenditure

4. I was unable to obtain sufficient appropriate audit evidence to confirm irregular expenditure disclosed in note 51.3 to the financial statements as the municipality did not provide the full listing of individual items that support the current and prior year balance. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure stated at R201 095 498 (2018: R197 501 801) in the financial statements.

Provision

5. I was unable to obtain sufficient appropriate audit evidence for provision for landfill sites as the municipality did not provide sufficient supporting documentation for the valuation of quantities and rates utilised in the calculations. I was unable to confirm these balances by alternative

means. Consequently, I was unable to determine whether any adjustment relating to the provision stated at R80 280 288 (2018: R76 304 808) in note 13 to the financial statements was necessary. Additionally, I was unable to determine the resulting impact on operational cost, depreciation and infrastructure assets as it was impracticable to do so.

Employee benefits

6. I was unable to obtain sufficient appropriate audit evidence for employee benefits as the municipality did not provide listings that agreed with the number of employees included in the calculation and the policy that confirms the eligible employees and amounts of the benefits relating to the post-retirement health care benefits. I was unable to confirm employee benefits by alternative means. Consequently, I was unable to determine whether any adjustment relating to employee benefits stated at R17 511 729 (2018: R19 429 585) in note 14 to the financial statements was necessary.

Inventory

7. The municipality did not measure land inventory in accordance with GRAP 12, *Inventory* as the municipality did not value the items in terms of the accounting policy for the current and prior year. As the municipality did not maintain adequate records, I was unable to determine the impact on the net carrying amount of land inventory disclosed in note 8 for the current and prior year as it was impracticable to do so. Additionally, there was a resultant impact on the deficit for the period and on the accumulated surplus. Consequently, I was unable to determine whether any further adjustments were necessary to the land inventory stated at R30 171 429 (2018: R30 171 429) in note 8 of the financial statements.

Payables from exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence for other payables and control, clearing and interface accounts. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the control clearing and interface accounts and other payables stated at R17 193 443 (2018: R11 189 234) in note 18 to the financial statements was necessary.

Prior period error

9. I was unable to obtain sufficient appropriate audit evidence for period errors in note 45 to the financial statements relating to property, plant and equipment, non-current provision, provisions, trade and other payables, as required by GRAP 3, Accounting policies, estimates and errors. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. Consequently, I was unable to determine whether any adjustment to accumulated surplus in the financial statements were necessary.

Context for the opinion

10. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
11. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts

1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

12. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to financial sustainability

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

14. I draw attention to note 59 to the financial statements, which indicates that the municipality is dependent on grants and budgeted a deficit for the next three financial years. As stated in note 59, these events or conditions, along with the other matters as set forth in note 59, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

15. I draw attention to the matters below. My opinion is not modified in respect of these matters.

An uncertainty relating to the future outcome of regulatory action

16. With reference to note 57 to the financial statements, the municipality is a plaintiff in disputing their trade payable electricity account. The ultimate outcome of the matter could not be determined and no provision for any asset that may result was made in the financial statements.

Material losses - electricity

17. As disclosed in note 52.9 to the financial statements, material electricity losses of R5 172 761 (2018: R5 002 823) was incurred, which represents 14,24% (2018: 14,50%) of total electricity purchased. The losses are as a result of electricity theft on pre-paid meters and illegal connections.

Material losses - water

18. As disclosed in note 52.9 to the financial statements, material water losses of R10 405 831 (2018: R5 639 687) was incurred, which represents 27,18% (2018: 17,99%) of total water purchased. The losses are as a result of the bursting and leaking of pipes.

Other matter

19. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes (MFMA 125)

20. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not

form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary schedules

21. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon

Responsibilities of the accounting officer for the financial statements

22. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA and the Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
23. In preparing the financial statements, the accounting officer is responsible for assessing the Nama Khoi Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

24. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.
25. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report

Introduction and scope

26. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance area presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
27. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
28. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2019:

Key performance area	Pages in the annual performance report
KPA 1 - Basic Service Delivery and Infrastructure	X-X
KPA 3 - Local Economic Development	X-X

29. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
30. The material findings in respect of the usefulness and reliability of the selected key performance areas are as follows:

KPA 1 Basic Service Delivery and Infrastructure

Various indicators

31. The indicators approved in the service delivery budget implementation plan do not agree with the indicators reported in the annual performance report. These changes were included in the annual performance report without approval.

Indicator number	Integrated Development Plan	Annual Performance Report
KPI 59	15 Quarterly routine inspections on electricity mini substations	Number of routine inspections on electricity mini substations
KPI 60	30 Quarterly inspections of Pole Mounted Transformers	Number of Quarterly inspections of Pole Mounted Transformers

32. The targets approved in the service delivery budget implementation plan do not agree with the targets reported in the annual performance report. These changes were included in the annual performance report without approval.

Indicator number	Indicator description	Planned Targets	Reported Targets
KPI 52	Report on the provision of basic service delivery to Nama Khoi Residents (NKPI Proxy Indicator - S10(a))	12 000	11 980
KPI 64	Percentage of expenditure on allocated MIG Budget	0%	95%

33. The reported achievement of the indicators and targets is not reliable as the municipality did not have an adequate performance management system to maintain records to enable reliable reporting on achievement of targets. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances while in other cases the supporting evidence provided did not agree to the reported achievement. I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements in the annual performance report for the indicators below:

Indicator number	Indicator description	Reported achievement
KPI 49	100% of Formal households with access to basic level of electricity submitted quarterly (NKPI Proxy indicator - S10(a)) – (NT.EE1.1)	74,50%
KPI 50	100% of Formal households with access to basic level of sanitation submitted quarterly (NKPI Proxy indicator - S10(a)) – (NT.WS1.1)	100%
KPI 51	100% of Formal households with access to basic level of water submitted quarterly (NKPI Proxy indicator - S10(a)) – (NT.WS2.1)	100%
KPI 52	Number of formal households with kerb-side solid waste removal service (NKPI Proxy indicator - S10(a)) – (NY.ENV31)	8 677,50
KPI 55	300 square meters of tarred road repaired quarterly (Annual target 300 x 4 =1200)	3 134,61

34. The measures taken to improve performance against targets were not included in the annual performance report for the indicators below:

Indicator number	Indicator description
KPI 01	Update Indigent Register by processing at least 95% of applications (NKPI Proxy – MFAM, Reg.S10(a)) by the 10th of each month
KPI 49	100% of Formal households with access to basic level of electricity submitted quarterly (NKPI Proxy indicator - S10(a)) – (NT.EE1.1)
KPI 50	100% of Formal households with access to basic level of sanitation submitted quarterly (NKPI Proxy indicator - S10(a)) – (NT.WS1.1)

Indicator number	Indicator description
KPI 51	100% of Formal households with access to basic level of water submitted quarterly (NKPI Proxy indicator - S10(a)) – (NT.WS2.1)
KPI 52	Number of formal households with kerb-side solid waste removal service (NKPI Proxy indicator - S10(a)) – (NY.ENV31)
KPI 55	300 square meters of tarred road repaired quarterly (Annual target 300 x 4 =1200)
KPI 56	50 km of gravel roads graded quarterly (50 x 4 =200)
KPI 57	250 meters of storm water channels cleaned per quarter (250 x 4 = 1000)
KPI 58	3 Monthly reports submitted quarterly on waste water monitoring reports to the green drop system by the 25th of each month (3x4=12)
KPI 59	Number of Quarterly routine inspections on electricity mini substations
KPI 60	Number of Quarterly inspections of Pole Mounted Transformers.
KPI 61	New electricity connections completed by 30 June by the municipality (NT.EE1.11)
KPI 63	Average of 95% compliance rate (SANS 241) drinking water quality over the quarter
KPI 64	Expenditure on the Annual Allocated MIG Budget by the 30 June
KPI 65	95% Expenditure on the Annual Allocated DWS (WSIG) Budget by the 30 June

35. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator Description	Reported Achievement	Audited value
KPI 64 - Expenditure on the Annual Allocated MIG Budget by the 30 June	71%	83,78%
KPI 65 - 95% Expenditure on the Annual Allocated DWS (WSIG) Budget by the 30 June	37,80%	90,12%

36. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 15 of the 20 indicators relating to this programme. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

Indicator number	Indicator description
KPI 01	Update Indigent Register by processing at least 95% of applications (NKPI Proxy – MFAM, Reg.S10(a)) by the 10th of each month
KPI 49	100% of Formal households with access to basic level of electricity submitted quarterly (NKPI Proxy indicator - S10(a)) – (NT.EE1.1)
KPI 50	100% of Formal households with access to basic level of sanitation submitted quarterly (NKPI Proxy indicator - S10(a)) – (NT.WS1.1)
KPI 51	100% of Formal households with access to basic level of water submitted quarterly (NKPI Proxy indicator - S10(a)) – (NT.WS2.1)
KPI 52	Number of formal households with kerb-side solid waste removal service (NKPI Proxy indicator - S10(a)) – (NY.ENV31)
KPI 55	300 square meters of tarred road repaired quarterly (Annual target 300 x 4 =1200)
KPI 56	50 km of gravel roads graded quarterly (50 x 4 =200)
KPI 57	250 meters of storm water channels cleaned per quarter (250 x 4 = 1000)

Indicator number	Indicator description
KPI 58	3 Monthly reports submitted quarterly on waste water monitoring reports to the green drop system by the 25th of each month (3x4=12)
KPI 59	Number of Quarterly routine inspections on electricity mini substations
KPI 60	Number of Quarterly inspections of Pole Mounted Transformers.
KPI 61	New electricity connections completed by 30 June by the municipality (NT.EE1.11)
KPI 63	Average of 95% compliance rate (SANS 241) drinking water quality over the quarter

KPA 3 Local Economic development

KPI 28: 400 job opportunities created annually through the municipality local economic development initiatives including capital projects

37. The measures taken to improve performance against targets were not included in the annual performance report.
38. The target was initially approved as 400 job opportunities in the service delivery budget implementation plan. However, it was changed without approval and included in the annual performance report as 1000 job opportunities. The supporting documents for the reported job opportunities could not be provided. As a result, I was unable to obtain sufficient appropriate audit evidence for the reported achievement. Limitations were placed on the scope of my work as I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 1000 job opportunities in the annual performance report.

Other matter

39. I draw attention to the matter below.

Achievement of planned targets

40. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs X to X of this report.

Strategic planning and performance management

51. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote.

Procurement and contract management

52. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year
53. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
54. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
55. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

Human resource management

56. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1) (d) of the MSA.
57. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.

Utilisation of Conditional grants (DORA)

58. Performance in respect of programmes funded by the Municipal Infrastructure Grant, Water Services Infrastructure Grant and Integrated National Electrification Programme Grant were not evaluated, as required by section 12(5) of the Dora.

Consequence management

59. The unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
60. Irregular expenditure and some fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

61. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected key performance area presented in the annual performance report that have been specifically reported in this auditor's report.
62. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
63. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
64. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

65. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
66. Leadership did not adequately exercise appropriate oversight over financial and performance reporting, compliance monitoring and related internal controls, which led to matters being repeatedly raised from the prior year to the current year.
67. Despite having approved policies in place, this has not made a significant impact on the municipality due to the remaining lack of skills and capacity that exist within the finance department and the municipality as a whole.
68. Management's internal controls and processes over the preparation and presentation of financial statements and performance information were not adequate to ensure that the financial statements and performance report were free from material misstatements.
69. The non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored and control measures implemented during the financial year.
70. The audit committee did not appropriately discharge their mandate for the financial year under review. The internal audit interventions did not strengthen the controls over the areas of qualifications with the work that was executed during the year. The municipality did not perform

formal risk assessment processes during the year that considered all risks relating to the municipality.

Other reports

71. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
72. The Directorate for Priority Crime Investigation (Hawks) are investigating allegations of land being disposed inappropriately that occurred during 2008 and 2009. These proceedings were in progress at the date of this report.

Auditor General

Kimberley

30 November 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for key performance area and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Nama Khoi Local Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.